

MINUTES OF MEETING
STATE OF WISCONSIN
DEFERRED COMPENSATION BOARD

DRAFT

February 22, 2005
1:00 p.m.

801 West Badger Road
Conference Room GB
Madison, Wisconsin

BOARD PRESENT: Edward Main, Chair
John Nelson, Vice-Chair
Martin Beil, Secretary
Michael Drury (via conference call)
Jon Traver

BOARD NOT PRESENT: None

PARTICIPATING STAFF: Eric Stanchfield, Secretary
Dave Stella, Deputy Secretary
Jon Kranz, Budget Director
Shelly Schueller, Director, Wisconsin Deferred
Compensation Program
Sharon Walk, Board Liaison

OTHERS PRESENT: Rhonda Dunn, Executive Assistant
Robert L. Lawler, Vanguard
Bill McClenahan, CitiStreet
Theresa Cruz-Myers, Nationwide Retirement Solutions
Sue Oelke, Nationwide Retirement Solutions
Britt Palmer, Great-West Retirement Services
Mark A. Sokol, Vanguard
Lily Matias, American Funds (via conference call)

Edward Main, Chair, called the meeting to order at 1:02 p.m.

Consideration of Minutes of November 9, 2004, Meeting

Motion: John Nelson moved acceptance of the minutes of the November 9, 2004, meeting as submitted by the Board Liaison. Jon Traver seconded the motion, which passed without objection on a voice vote.

Election of Officers

Motion: Mr. Traver moved to cast a unanimous ballot for Edward Main as Chair, John Nelson as Vice-Chair and Martin Beil as Secretary. Martin Beil seconded the motion, which passed without objection on a voice vote.

Rule Procedure Change

Robert F. Weber, Department of Employee Trust Funds (DETF) Chief Legal Counsel, shared a PowerPoint Presentation that outlined the administrative rule-making process. DETF requests that the Deferred Compensation Board (Board) formally agree to a rule-making process under which a rule will not formally come before the Board for action until the DETF believes the final draft report is ready to submit to the Legislature. The Board will be asked to formally approve the rule after receiving the final draft report.

Motion: Mr. Nelson moved that the Board adopt the rule-making process described in DETF Chief Counsel Weber's memorandum to the Board dated January 31, 2005. Mr. Traver seconded the motion, which passed without objection on a voice vote.

Approval of Fax Rule

Mr. Weber requested that the Board approve the final draft report of the fax and e-mail receipt rule. This rule is intended to treat documents received by fax or e-mail as if they were received by other, non-electronic means, such as by mail or hand delivery. The date of receipt will be the actual date the electronic document arrives on the Department's e-mail or fax server, even if that is after regular office hours, on weekends or holidays. Non-electronic documents may only be received during regular business hours.

Motion: Mr. Traver moved that the Board approve the Department's final draft report on Clearinghouse Rule #04-104 for submission to the Legislature and promulgation. Michael Drury seconded the motion, which passed without objection on a voice vote.

Wisconsin Deferred Compensation Educational Efforts

Theresa Cruz-Myers of Nationwide Retirement Solutions (NRS) provided the Board with an overview of the Wisconsin Deferred Compensation (WDC) program and the educational initiatives NRS has made on behalf of the WDC. Ms. Cruz-Myers oversees marketing, communication and education programs at NRS. As part of her presentation to the Board, she discussed the health of the plan, how the WDC compares to other plans, the 2002 Cortex study results and implications for the future.

In response to the findings of the 2002 Cortex study, the WDC and NRS implemented a participant education program. The focus of the education program is to engage, educate and empower employees. Workshops and action plans were created that focus on reducing debt, closing the retirement gap, creating a spending plan, and managing investment risk. Face-to-face and Web-based workshops are being offered. In addition, articles in the *Money Talks* newsletters have addressed topics identified in the Cortex study.

State and local government employees were surveyed for their opinions regarding the new education initiatives.

- Ninety-eight percent of the survey respondents indicated they had confidence in the facilitator (retirement specialist) and they liked the way the workshop was delivered.
- Ninety-seven percent felt they received significant value from the workshop.

Employers were also surveyed. Approximately 30% of the 653 surveys were returned.

- Seventy-nine percent ranked the effectiveness of the group workshops as “good” or “very good.”
- Eighty-eight percent ranked service from the WDC office as “good” or “very good.”

Vanguard Target Retirement Funds Presentation

Bob Lawler, Senior Relationship Manager, and Mark Sokol, Sales Executive, of the Vanguard Group presented an overview of the Vanguard organization to the Board. Vanguard currently has \$900 billion in assets and is the only mutual fund company in the world owned by the shareholders.

Mr. Lawler and Mr. Sokol discussed adding lifecycle funds to the WDC spectrum. They noted that rollout education and ongoing information are two components critical to the success of lifecycle funds. Many times participants are overwhelmed with too many investment choices. Lifecycle funds offer a good alternative. Lifecycle funds are rebalanced daily and over time are rebalanced to become more conservative as participants near retirement age.

Recommendation to Add Lifecycle Fund Series

Shelly Schueller reported on the Board’s previous activity with respect to consideration of lifecycle funds. During 2004, the WDC Board discussed the merits of lifecycle funds and in November 2004, the Board approved adding a series of lifecycle funds. The Deferred Compensation Investment Committee (DCIC) met on December 7, 2004, to evaluate specific lifecycle funds for inclusion in the WDC. After reviewing potential lifecycle funds, the DCIC recommended that the Board add the Vanguard Target Retirement Fund Series to the WDC spectrum of investment options. Ms. Schueller also noted that changes needed to be made to the WDC investment policy statement specifically to include criteria for the lifecycle funds.

Motion: Mr. Traver moved to approve the addition of the Vanguard Target Retirement Fund Series to the WDC spectrum of options and to revise the investment policy statement to include criteria for lifecycle funds. Mr. Nelson seconded the motion, which passed without objection on a voice vote.

Putnam and American Funds Investigations

Mr. Nelson provided an article from the February 2, 2005, *Wall Street Journal* entitled "Putnam May Owe \$100 Million." Mr. Nelson expressed concern about the implications for deferred compensation holders in the Janus fund and possible collateral damage to Janus Fund holders due to increased trading costs.

The Board asked that Ms. Schueller contact NRS' legal counsel, Kerry Robinson, to determine what the best course of action is regarding this situation. Following her discussion with Mr. Robinson, Ms. Schueller will consult with the Board Chair and prepare an informational memo. This item and memo will be added to the agenda of the May 2005 Board meeting.

Ms. Schueller provided a summary to the Board regarding allegations involving the American Funds. On Wednesday, February 16, 2005, a complaint was filed by the National Association of Securities Dealers (NASD) alleging that during 2001 through 2003, American Funds made payments to about 50 brokerage firms to reward past sales and to encourage future sales. NASD also alleges that American Funds have targeted commissions for the upcoming year with preferred fund lists, which is a violation of the 1973 Anti-Reciprocal Rule.

Lily Matias, Client Relationship Manager for the American Funds, joined the meeting via conference call. Ms. Matias stated that American Funds strongly disagreed with NASD's charges. She indicated that the company has always operated within the guidelines of any rules of NASD. American Funds plans to request a hearing before NASD. Ms. Matias will continue to provide updates to Ms. Schueller.

Miscellaneous

Ms. Schueller reported that the WDC Administrative Services Contract Request for Proposal (RFP) was released on January 14, 2005. Responses are due March 1, 2005. The evaluation team will review these in March and April. Ms. Schueller expects to provide a recommendation regarding awarding the contract to the Board for consideration at the May 2005 meeting.

Ms. Schueller provided an update on WDC fund closures.

- The Dreyfus Fund was closed out as of December 31, 2004. Approximately 1,800 accounts were moved to the Vanguard money market default account.
- Participants are continuing to move out of the Janus Fund. There are currently less than 10,000 participants with accounts in the Janus Fund. Janus will close as of December 31, 2005.

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- T. Rowe Price will also close at the end of 2005. There are 11,000 participants in T. Rowe Price.

Adjournment

Motion: Mr. Beil moved to adjourn. Mr. Nelson seconded the motion, which passed without objection on a voice vote.

The meeting was adjourned at 3:13 p.m.

Date Approved: _____

Signed: _____

Martin Beil
Secretary